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Coalition of Wisconsin Aging Groups
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The Coalition of Wisconsin Aging Groups (CWAG)

supports SB 513 relating to Life Settlements.

CWAG supports SB 513 especially the prohibition of stranger originated life insurance (STOLI) transactions. A STOLI transaction is where a third party buys a life insurance policy on a stranger with no legitimate purpose other than to speculate on the early death of the insured. STOLI transactions are a threat to Wisconsin's senior consumers who are the most vulnerable to this predatory sales practice. Elderly consumers who legitimately need life insurance policies for the protection of their spouses, families, estates and businesses are instead misled into the deliberate purchase of a life insurance policy with borrowed funds solely for the purpose of making a quick profit on the resale. The quick profit often comes at a cost that the insured does not understand due to non-disclosure or actual misrepresentation by the brokers engaged in selling STOLI policies. For example, once the STOLI policy has been issued, the insured may no longer be able to obtain much-needed additional life insurance for the benefit of his or her family, business and/or estate. Often the insured who sells the policy does not understand that the sale generates taxable income.

The STOLI industry hurts all insurance consumers because the industry will most likely cause an increase in life insurance premiums. Life insurance is an important safety net for middle class families who rely upon life insurance to prevent financial catastrophe upon the death of the primary breadwinner. Small businesses will suffer if life insurance becomes unaffordable to use to provide protection against the loss of key employees and which provides crucial capital to fund business buy/sell transactions to preserve continuity upon the death of business owners.

STOLI has been the subject of lawsuits in other states and Wisconsin should take the lead in regulating this industry rather than forcing individual consumers to resort to ad hoc legal remedies through the courts. STOLI transactions have involved dishonest brokers who instigated the STOLI arrangements solely to profit from the sale of the policies. There are instances of brokers who have not paid insurance premiums with money taken from the purchaser for that purpose, and of brokers who have themselves secretly purchased policies from which to personally profit on individuals who lacked capacity to understand the transactions and give consent. There are brokers who do not disclose crucial facts to prospective purchasers. These abuses must be prevented through strong regulation which SB 513 accomplishes.

CWAG supports SB 513 because it also provides important regulation of the life settlement industry in which a life insurance policy is sold by the owner to a third party for less than death benefit but more than the cash surrender value. SB 513 mandates that meaningful and thorough

disclosures are required to be made by purchasers and brokers to the owner of the policy subject to a life settlement about the risks. The most important regulation offered by SB 513 is the prohibition on the sale of a policy in the first 5 years after its issuance, except for substantial change in circumstances that would permit an earlier sale of the policy. The exceptions stated in the bill are numerous and cover all conceivable justifiable reasons for selling one's policy in the first 5 years of ownership. A five-year period will discourage non-recourse financing of the premiums on life insurance policies and will discourage these STOLI transactions.

CWAG supports this legislation to regulate life settlements and prohibit STOLI transactions. The insurance commissioner needs this legislation to protect seniors and other Wisconsin consumers from very real deceptive and abusive practices.

Sincerely,

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